

BNDES and the financing of MSMEs in Brazil

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Outline

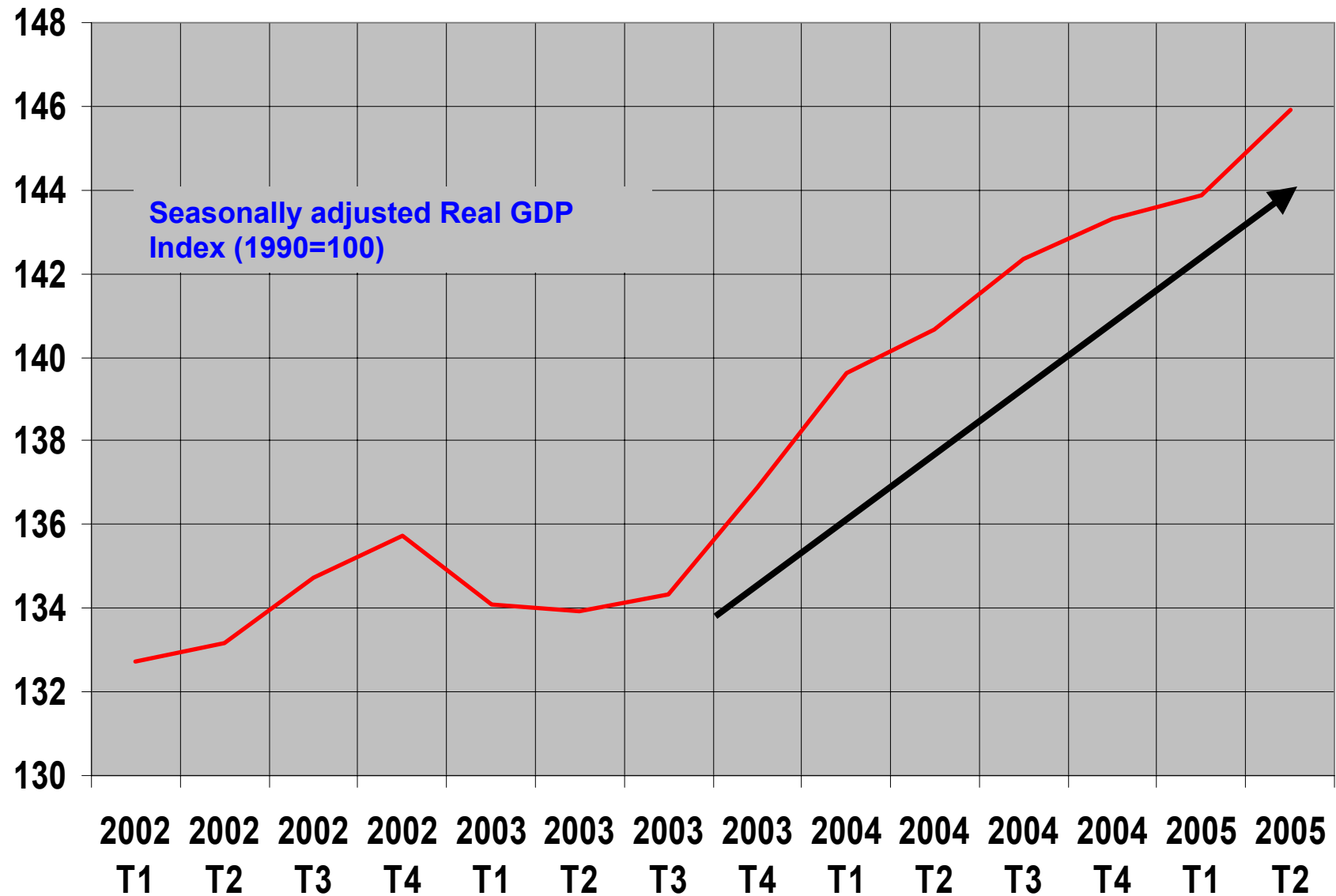
- **Introduction**
- **Credit operations**
- **BNDES and the Financing of MSMEs**

Introduction

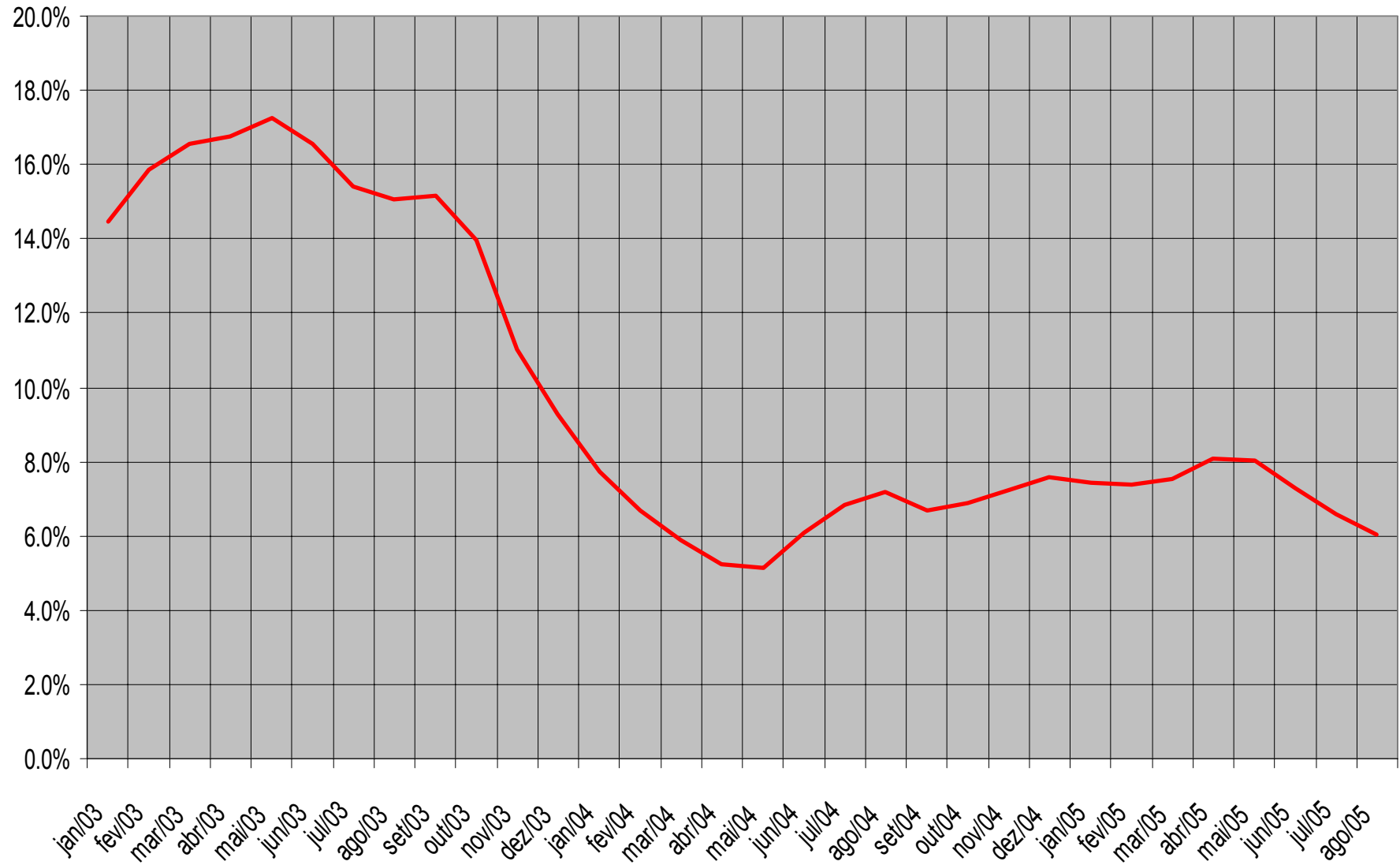
The New Development Cycle in Brazil

- **Faster GDP growth with low inflation**
- **Increase in the trade and current-account surpluses**
- **Increase in investment, productivity and employment**
- **Reduction in the public debt-GDP ratio**
- **Institutional reforms**
- **Favorable international conditions**

Increase in the Real GDP

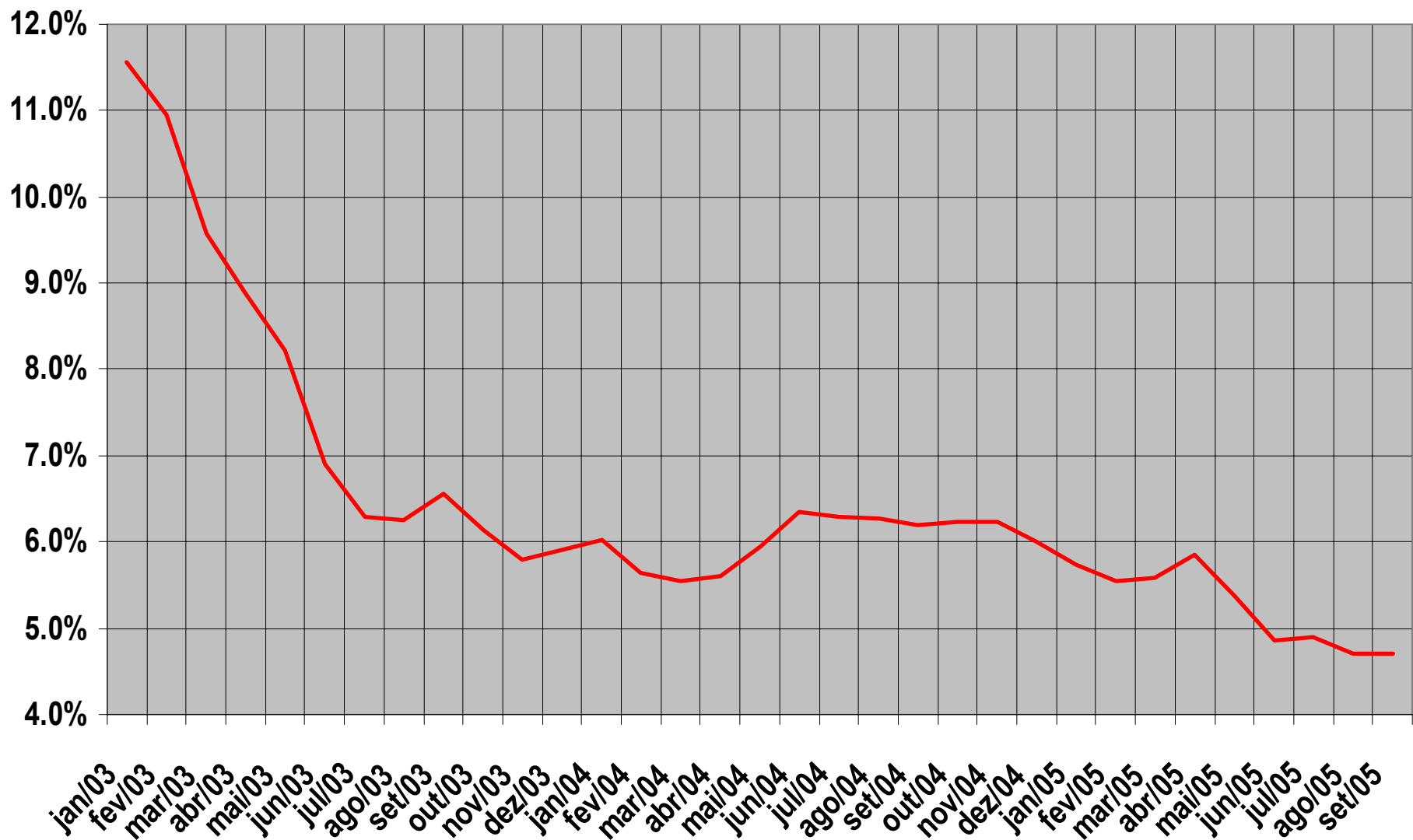


Reduction of of the effective inflation rate



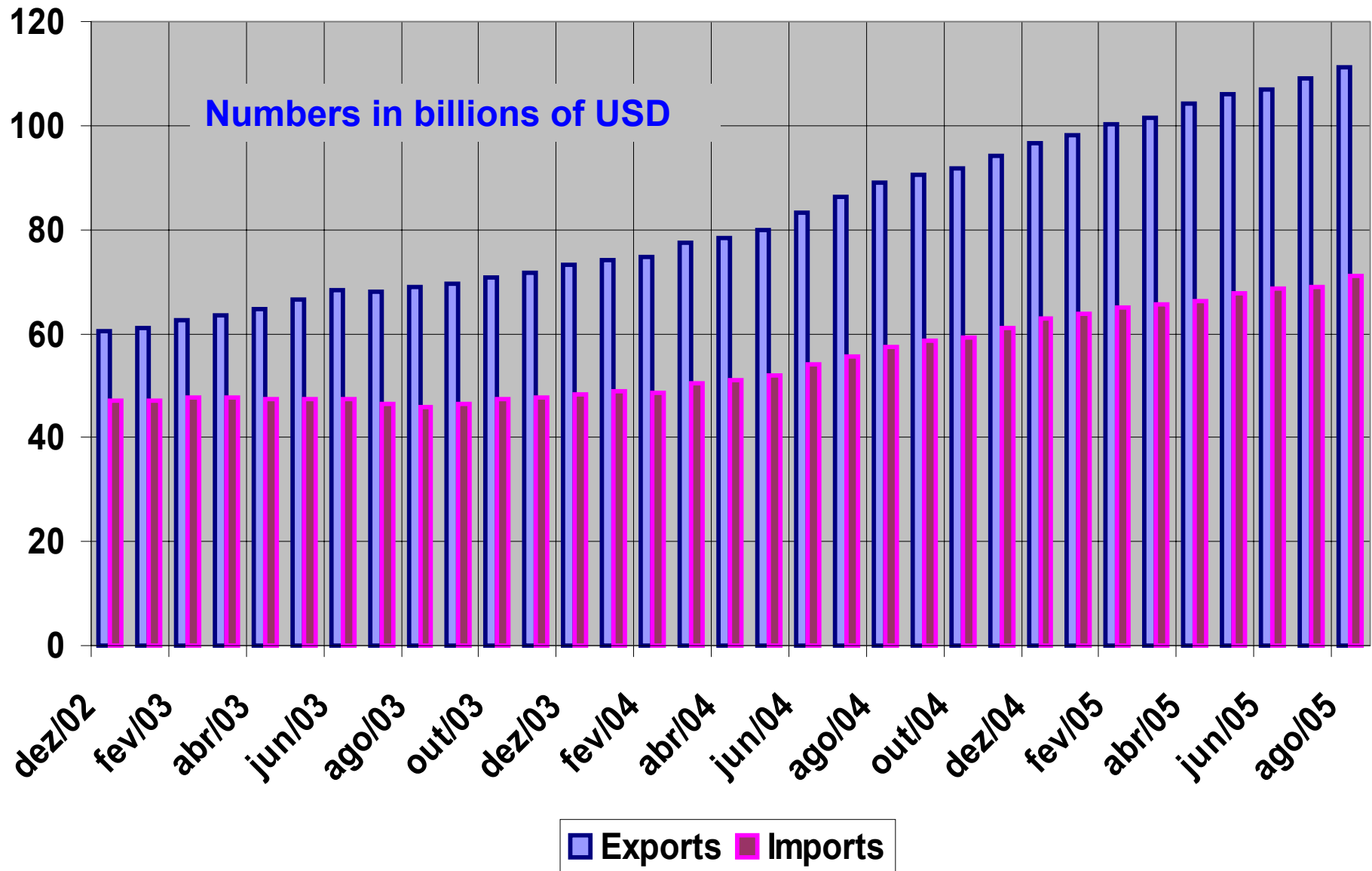
Cumulated consumer inflation rate (IPCA) in the last 12 months

Reduction of the expected inflation rate

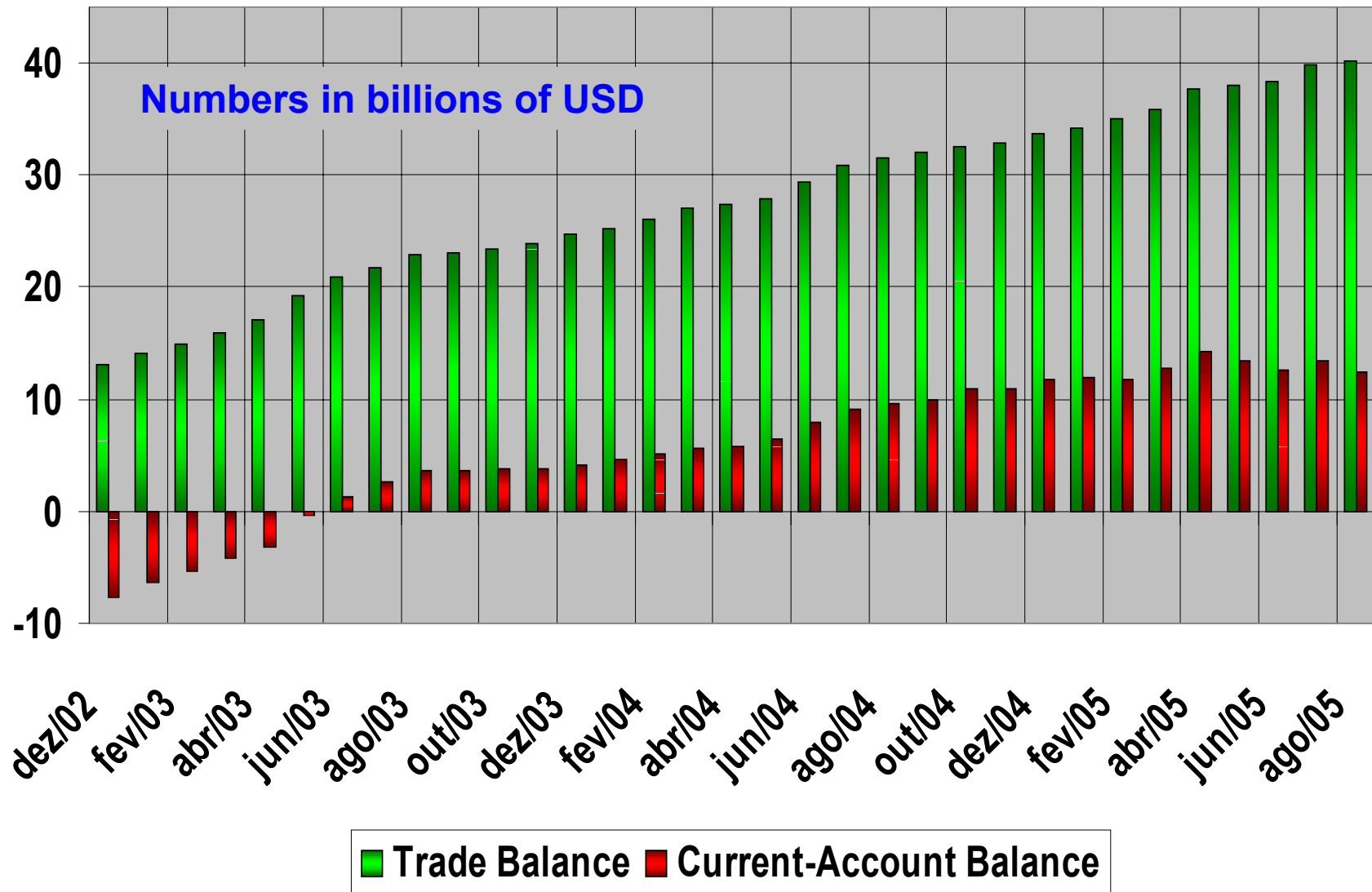


Cumulated consumer inflation rate (IPCA) expected for the next 12 months

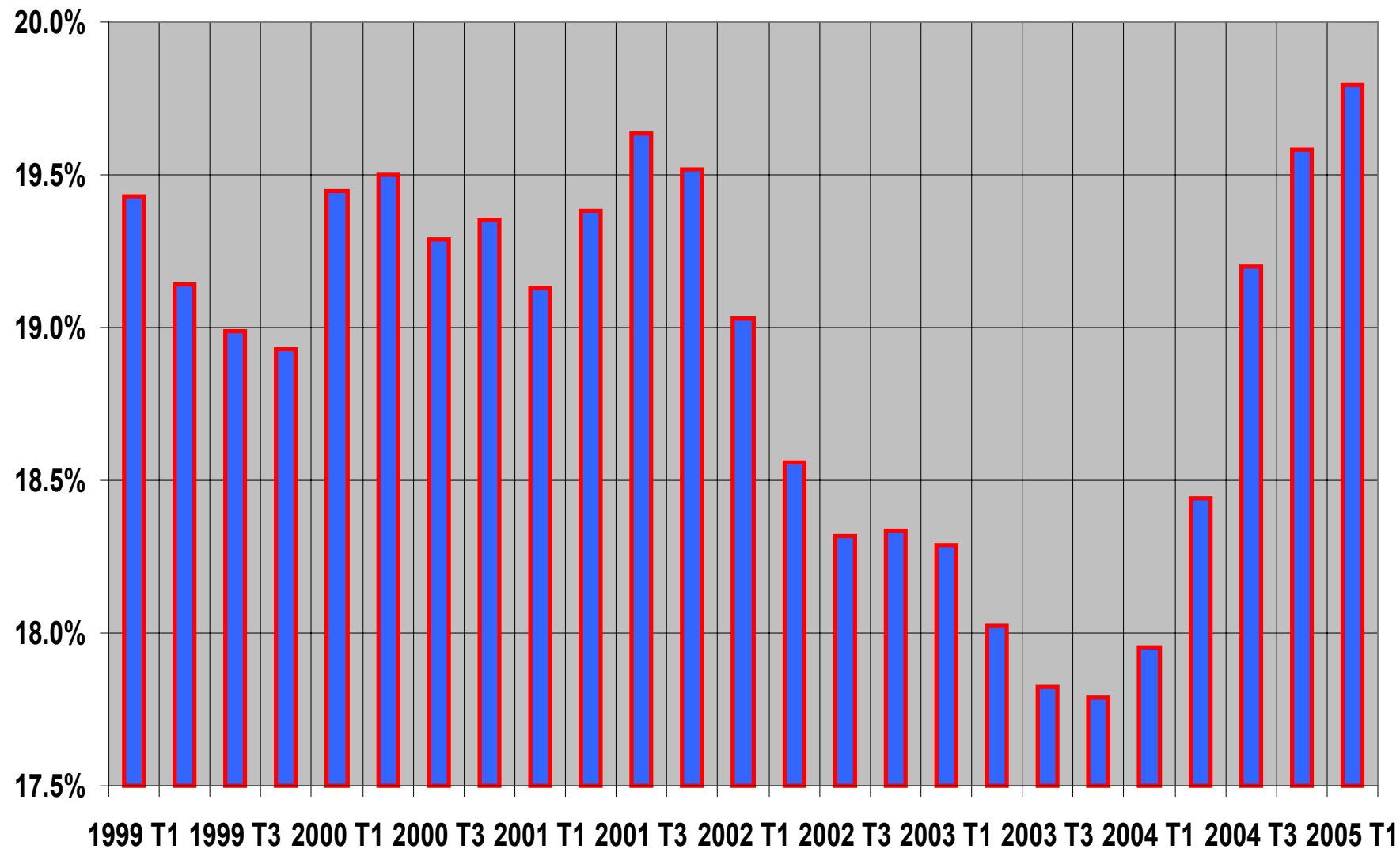
Increase in the Trade Balance



Increase in the Current-Account Balance

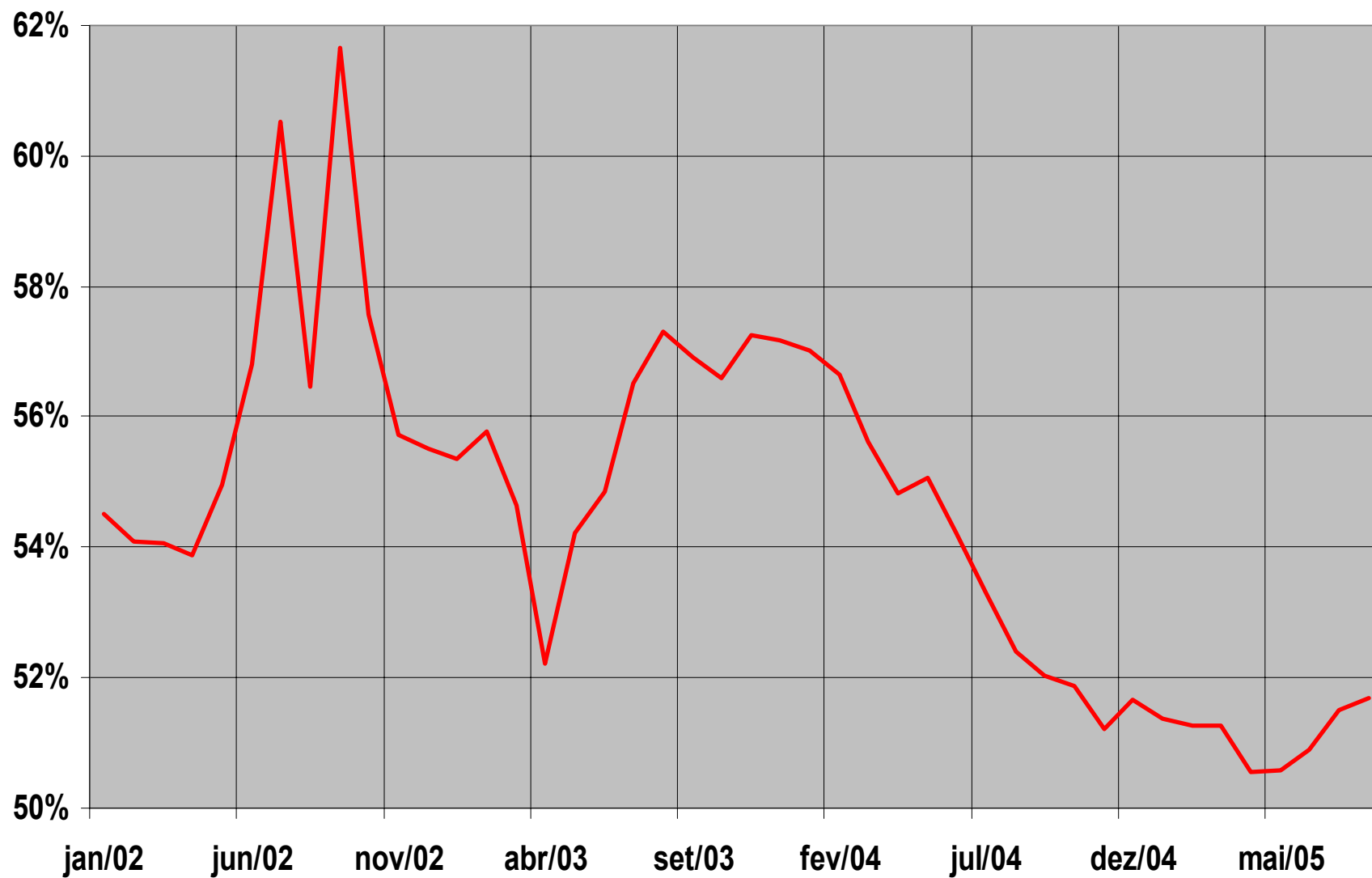


Increase in the investment-GDP ratio



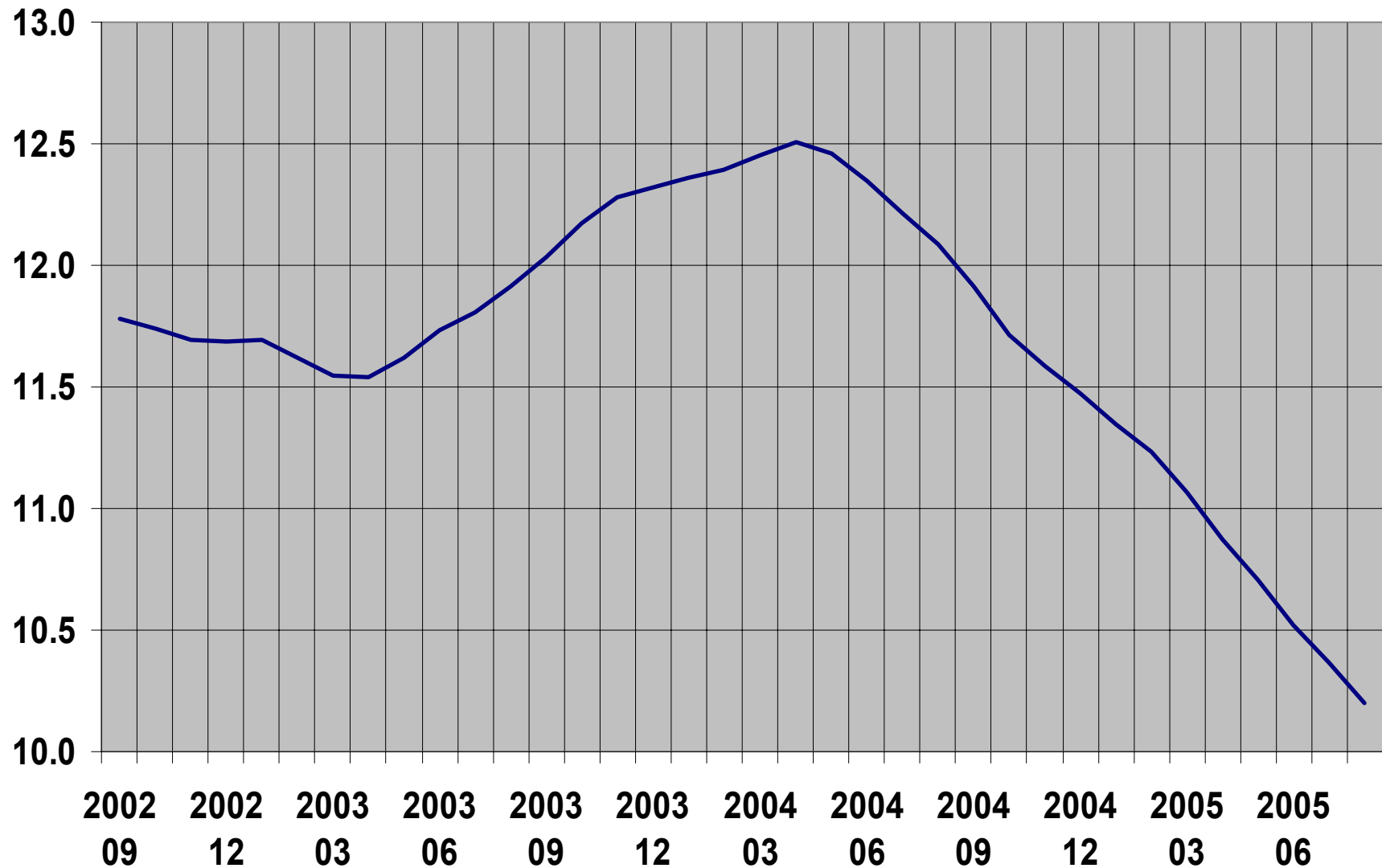
Investment in fixed capital in % of GDP in the last 12 months

Reduction in the public debt/GDP ratio



Net debt of the public sector in % of GDP

Reduction in the unemployment rate



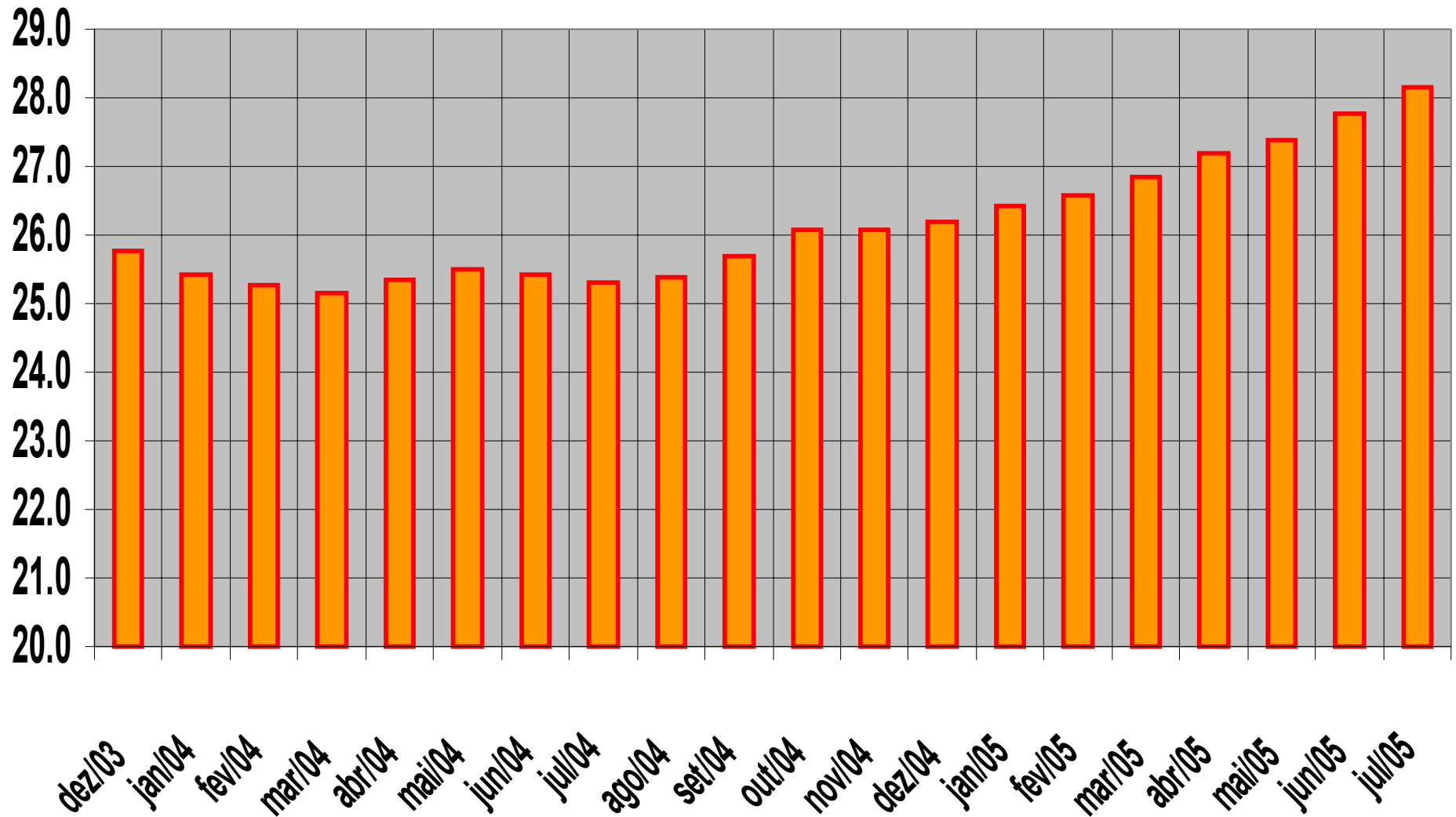
Average rate of unemployment in the last 12 months

Credit Operations in Brazil

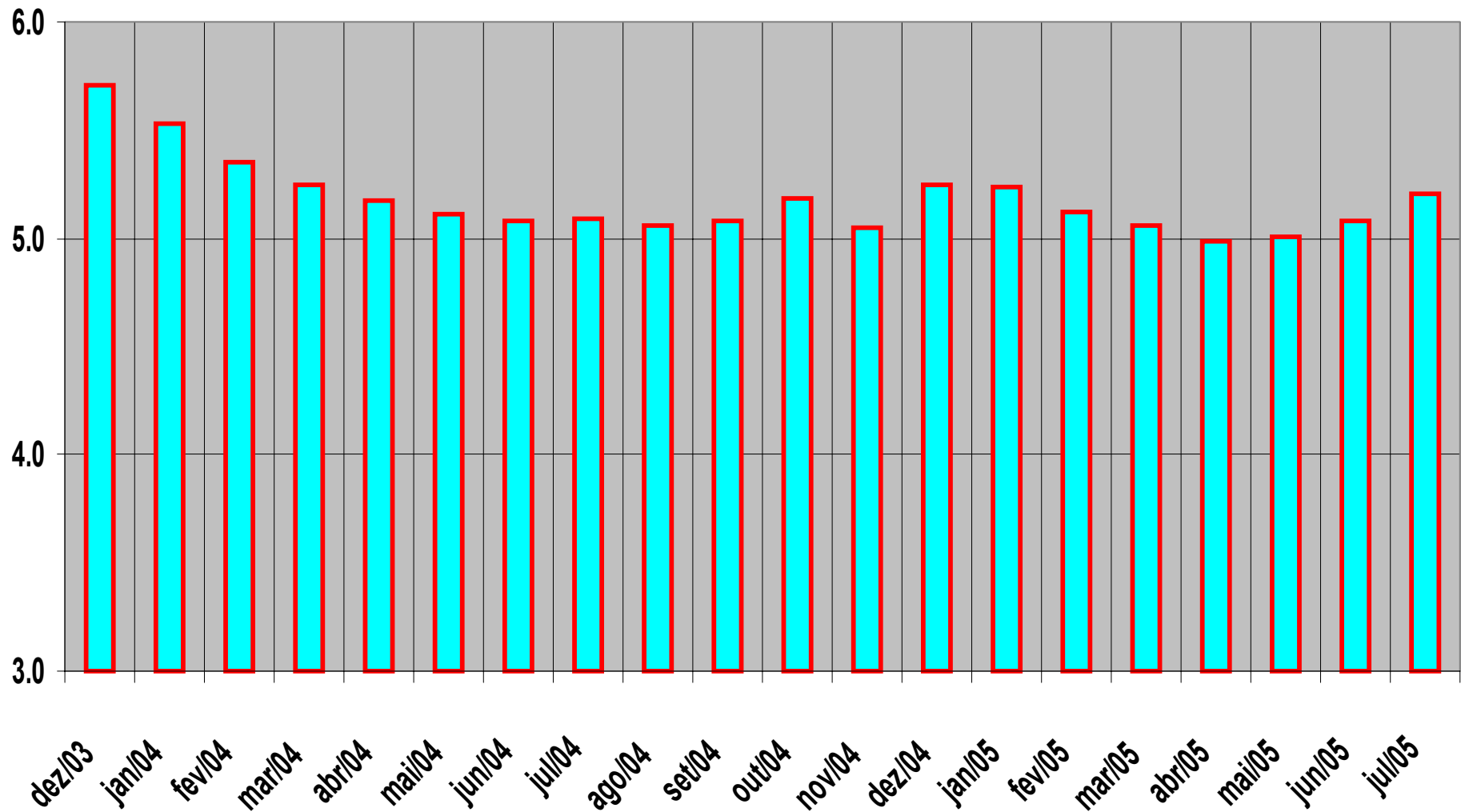
The continuity of GDP growth depends on long-term finance

- **The credit-GDP ratio grew in the past year but it is still low (28%) in comparison to other emerging economies (80%).**
- **The BNDES is the main supplier of long-term credit in Brazil.**

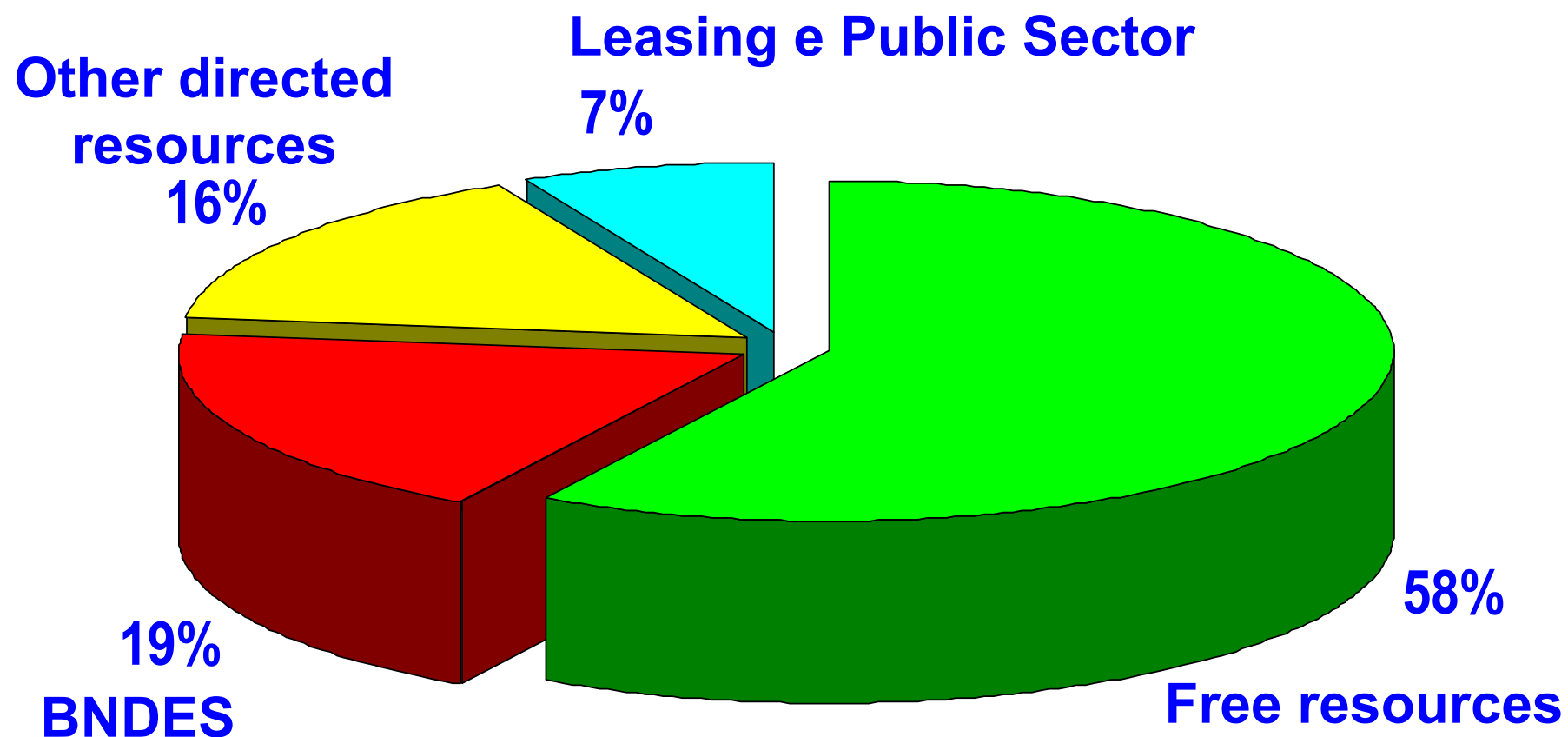
Increase in the credit-GDP ratio



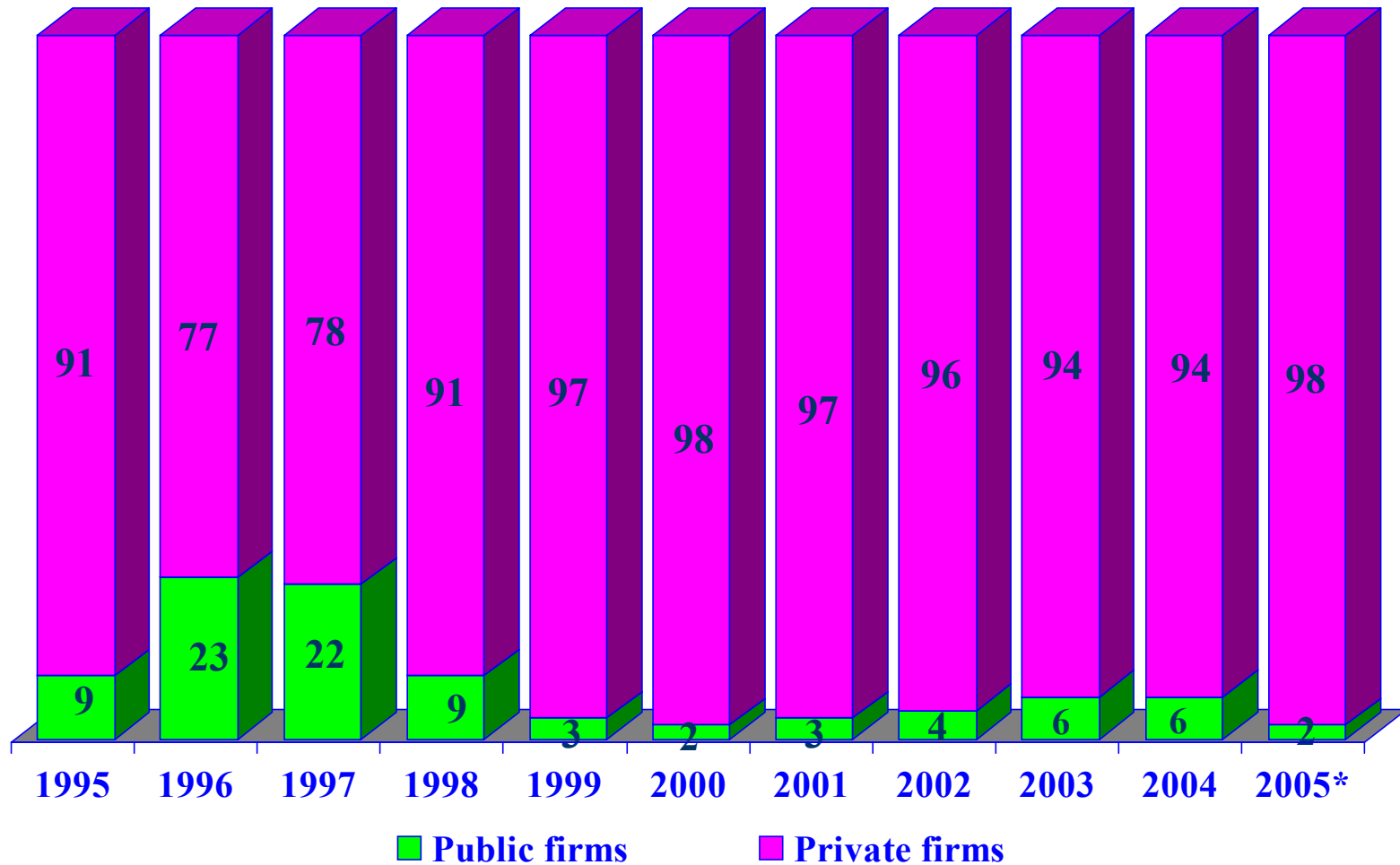
The BNDES credit operations correspond to 5% of the Brazilian GDP



The BNDES responds for 19% of the total credit in the economy



Private firms absorb 98% of the disbursements of the BNDES



BNDES and the Financing of MSMEs

Why financing MSMEs is important to the BNDES?

- ◆ MSMEs predominate in the Brazilian economy: the sector's strength, productivity, growth, and profitability are therefore essential factors for both the economy and employment in Brazil.
- ◆ BNDES has an strategic role as a source of leverage, since it is now the only significant source of medium- and long term funding for financial intermediaries.

Financing Microenterprises

◆ The Brazilian Support Service for Microenterprises and Small Businesses - SEBRAE estimates that there are some 10 million informal microenterprises in existence.

◆ BNDES FUNCTIONS IN THIS SECTOR:

(i) channeling a large portion of indirect loan (onlending) operations to tax-paying microenterprises;

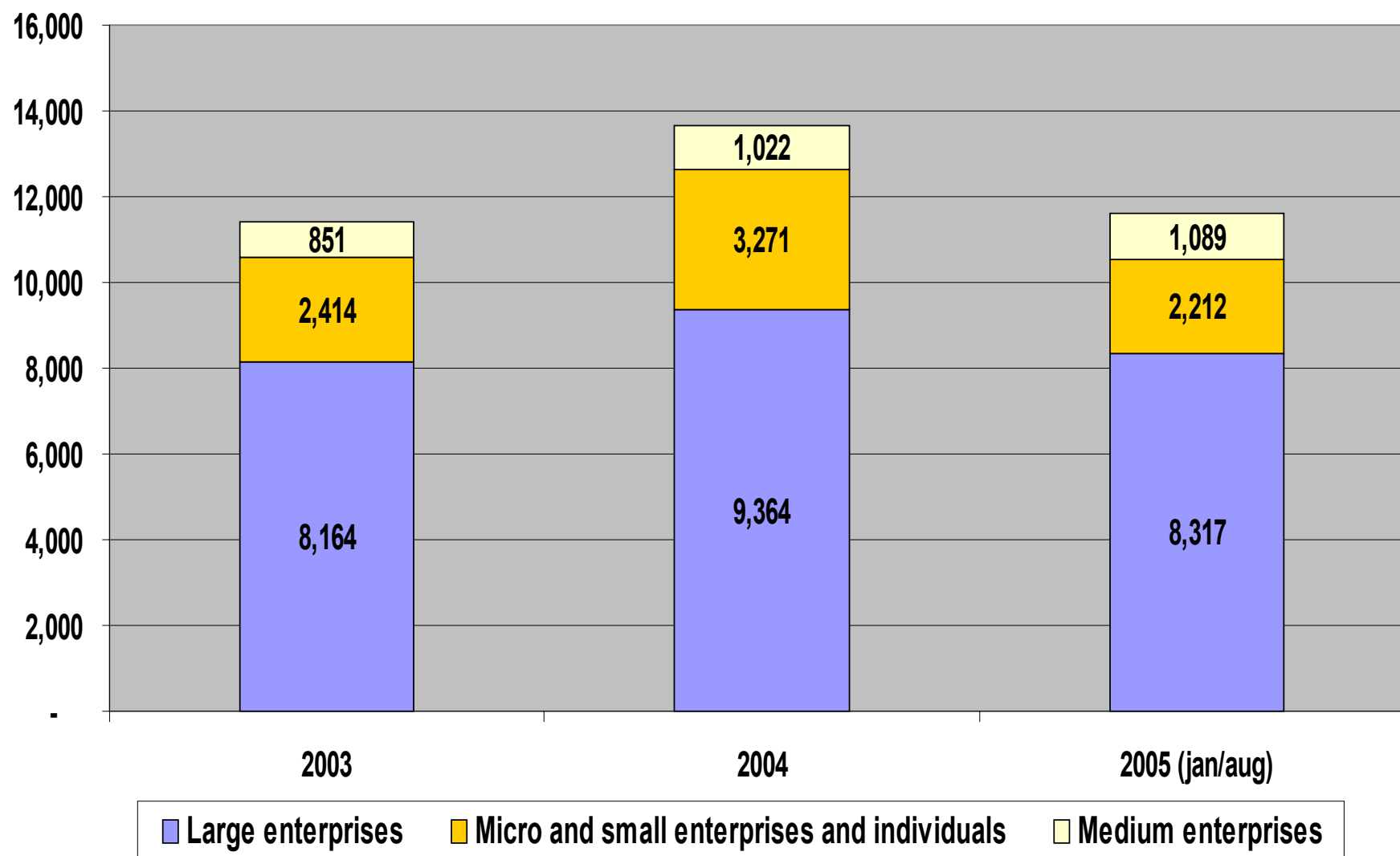
(ii) backstopping informal microenterprises through its Social Area (lending to microfinance institutions, State development agencies, municipalities, and relevant public and private agencies); and

(iii) providing technical assistance for the development of new products and the institutional strengthening of nongovernmental microfinance organizations.

Financing Small & Medium Enterprises

- ◆ According to the annual record of social information (RAIS) database, SMEs:
 - i) Accounted for 5% of entrepreneurs and 30.7% of private employment as of 2001;
 - ii) Have a relatively small share of GDP and exports.
- ◆ The problems SMEs are having in obtaining financing need to be addressed because their competitiveness is of importance for the entire country, given their role in the modernization of industry, the development of outsourcing, and the reengineering of production processes.
- ◆ BNDES has programs to provide them with access to medium- and long-term credit. These programs serve to leverage the development of competitiveness and employment.

BNDES' Disbursements by Firm Size (in US\$ Millions)



Special programs and products:

- ◆ The “*Cartão BNDES*” (BNDES Card)
- ◆ The “*BNDES Automático*” (automatic credit line)
- ◆ Venture-capital funds
- ◆ Technology funds
- ◆ Receivables funds

The BNDES Card

The BNDES Card was designed facilitate and expedite the finance to MSMEs. Its main features are:

- ◆ **Pre-approved credit line of R\$ 100.000 thousand (approximately US\$ 40.000).**
- ◆ **Interest rate based on Government domestic bonds (LTNs).**
- ◆ **Amortization in 12 to 36 fixed monthly payments.**
- ◆ **Purchases allowed only from registered producers of capital goods at the BNDES.**
- ◆ **Access and management through the web (www.cartaobndes.gov.br).**
- ◆ **Cards issued by the BNDES or by commercial banks authorized by the BNDES.**

The BNDES Automatic Credit Line

The BNDES automatic credit line was designed to facilitate and expedite the finance of investment projects and circulating capital. Its main features are:

- ◆ Credit line up to R\$ 10 million.**
- ◆ Interest rate = financial cost + BNDES spread + Banks' spread (approximately 15% today).**
- ◆ BNDES' annual spread: 1% for MSMEs and between 2.5 and 4% to Large enterprises.**
- ◆ Participation: up to 50% of the value of the investment project in general, and 60% in the case of MSMEs.**
- ◆ Circulating capital: credit line based on the value of the investment project, going up to 70% of the total value for MEs, 40% for SMEs, and 15% for LEs.**

Venture-Capital Funds

EMERGING ENTERPRISES FUNDS:

1 – RSTEC: 10 years fund created to support enterprises in Rio Grande do Sul state; supported 14 enterprises totalling R\$ 10,5 millions

2 – SCTEC: 6 years fund created to support enterprises in Santa Catarina state; supported 6 enterprises totalling R\$ 10,5 millions.

3 – SPTEC: 10 years fund created to support enterprises in São Paulo state; supported 6 enterprises. Fund net worth=R\$ 5 millions.

4 – MVPTEC: 6 years fund; supports 5 enterprises totalling R\$ 9,3 millions.

Technology and Competitiveness Funds

FUNTEC:

- ◆ Objective: finance technological institutions and innovations.
- ◆ Initial resources: R\$ 180 millions from BNDES.
- ◆ Conditions: similar to the finance of MSMEs.

FGPC (*"Fundo de Garantia para Promoção da Competitivade"*):

- ◆ Objective: bear part of the financial risk of credit operations done by the BNDES (Surety Fund).
- ◆ Resources: from the National Treasury and managed by the BNDES.
- ◆ Conditions: similar to the "BNDES automático" plus a risk commission.

Receivables funds

- ◆ The creation of receivables investment funds [“Fundos de Investimento em Direitos Creditorios”] (FIDC) could improve the management of intermediary institutions’ portfolio liquidity.
- ◆ These funds, created and managed by financial institutions are linked to specific projects, defined by the government and financial institutions, and bring private investors to social interest projects.
- ◆ From 2003 to 2005 a total of US\$ 600 million of shares was issued in the FIDC in Brazil.

Thank you!



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